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SUBJECT: WORLD BANK MEETS DONOR COUNTRY REPRESENTATIVES

SENSITIVE BUT UNCLASSIFIED. PLEASE PROTECT ACCORDINGLY.

¶1. (SBU) Summary: On April 7, Daniela Gressani, World Bank Vice President of Middle East and North Africa Region, recently discussed her organization's Iraq strategy and exchanged views on the Bank's role in Iraq with donor country representatives. Donors requested a larger World Bank presence to more effectively monitor its programs and provide analytical and technical advice to the government of Iraq (GOI). The drop in oil prices has created a greater sense of urgency for the GOI to seek foreign investment in Iraq. Gressani later met separately with EMIN Wall and indicated that she faced difficulties recruiting senior World Bank officials with the right skills to come to Baghdad. PM Maliki has sent the World Bank a letter requesting assistance with developing a national energy strategy and in reforming the institutional framework for its oil and gas sector. End Summary.

World Bank VP Visits Iraq  
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¶2. (SBU) World Bank Vice President of Middle East and North Africa Region Daniela Gressani discussed her organization's new Iraq strategy with donor country representatives based in Iraq on April 17. Gressani was accompanied by World Bank Executive Director Merza Hasan, Multilateral Investment Guarantee Agency (MIGA) CEO James Bond, International Finance Corporation (IFC) Middle East and North Africa Department Director Michael Essex, and Iraq Country Director Hedi Larbi. The World Bank's goal over the next two years is to assist Iraq in reaching its next phase of development by supporting a strong framework for private sector development, private enterprise and joint-venture establishment.

Donors Urge Stronger  
World Bank Presence  
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¶3. (SBU) EMIN said that the World Bank's focus on the private sector and public finance management is the right approach, welcomed the involvement of the International Bank for Reconstruction and Development (IBRD), IFC, and MIGA, and urged a stronger World Bank presence with more staffing in Iraq. All donor representatives concurred with his call for a larger Bank presence. Italian Ambassador Maurizio Melani suggested MIGA and the IFC engage with Iraq to help it develop its infrastructure. He commented that the World Bank's commitment of \$500 million loans for investment projects for FY 09-FY11 was too little. World Bank officials responded that they based this decision on the fact that \$850 million in the Iraq Trust Fund has not yet been disbursed. This raised the issue of Iraq's absorption capacity. If Iraq were to draw down those funds and the \$500 million, the Bank would have a case to increase its lending. Ilkka Uusitalo, EC Mission Head to Iraq, expressed concern over the World Bank's slow start of its Public Finance Management Program.

¶4. (SBU) Danish Ambassador Mikael Winther, speaking as the IRFFI Chairman, said donors and the World Bank should engage more with the GOI and help define GOI policies on donor assistance. The World Bank needs a stronger presence to lead the way in discussions with

the GOI on coordinating donor assistance. Australian Ambassador Bob Tyson echoed the call for a robust World Bank presence and the need for the GOI to rely more on the private sector rather than public service sector.

¶5. (SBU) Richard Hogg, Head of the UK Department for International Development (DFID) Office in Iraq, said that the GOI now seeks concessional financing and will look towards the World Bank for assistance. Moreover, Hogg continued, Iraq not only needs the World Bank's analytical and intellectual skills, but will look to the World Bank to play a role in donor coordination.

¶6. (SBU) Japanese Minister Counselor Kansuke Nagaoka said that despite progress in its political and economic development, Iraq still lacks basic services in many areas. In March 2008, Japan signed its first project, the Umm Qasr Port Rehabilitation Project. Since establishing a monitoring committee with participation of the Prime Minister's office, progress has been swift. He noted that Japan anticipates disbursing \$100 million for the project this year. Nagaoka pointed out that the improved security situation has led to an expansion of its presence, including a senior Japan International Cooperation Assistance (JICA) official joining Japan's mission this month and a JICA office opening in Erbil.

No Timeline Given  
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¶7. (SBU) Gressani responded that the World Bank has over 30 staff, including Iraqi locals, working in Iraq but that most of them work outside Baghdad. She acknowledged that the security situation has improved and that the GOI is focusing on long-term plans. She said that the World Bank will eventually increase staff in Baghdad, but

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provided no timeline and remarked that overall World Bank staff is limited.

World Bank: Current Role in Iraq  
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¶8. (SBU) Hedi Larbi, Country Director for Iraq, said that in addition to focusing on developing capacity building and the private sector, the World Bank will analyze four ministries and come up with an action plan to improve their capacities. This process will take time, but Larbi predicted that it would lead to concrete results. The Bank's Third Interim Strategy Note (ISN) identifies agriculture, electricity, public financial management and bank restructuring as priority sectors on which the World Bank will focus. Larbi mentioned that the World Bank's two agricultural projects are progressing rapidly. The World Bank has already disbursed \$10 million on its electricity project, but remains unsure whether to continue in this area. Larbi noted that the World Bank just negotiated the Banking Restructuring Project, which he expected to be signed in two to three weeks. It also expects to negotiate a Public Financial Management Project on April 18 with a signing possible in May.

¶9. (SBU) Larbi said that given the limited capacity of the Iraqi government, a monitoring committee for all the donors may be needed to examine the implementation of programs. Jean-Michel Happi, resident World Bank Country Manager, added that the GOI is creating a single National Development Plan and that the first critical element is to align the World Bank's program with the GOI's National Plan. Donor coordination should be led by the GOI, and the World Bank should facilitate donor coordination.

More Investment Needed  
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¶10. (SBU) EMIN said that the GOI is interested in attracting foreign investment and that the oil and gas sector and the financial sector have particular promise. He noted prospects for investment from the Middle East, including Iraqi expatriate funds. He cited the potential for investing in independent electricity generation, but this needs further clarification from the GOI. Italian Ambassador

Melani suggested investment in areas of agribusiness, food processing, and manufacturing but noted that Iraq's transportation infrastructure still needs rehabilitation. Italy has financed an agriculture and irrigation project via a soft loan of EU 100 million (\$133 million). The project is making progress.

¶11. (SBU) Australian Ambassador Tyson mentioned that Australia and Iraq recently signed several Memoranda of Understanding (MOUs), including one on investment in Iraq's trade sector. DFID's Hogg added that Lord Mandelson led an investment delegation recently to Iraq, which included construction, architectural, and financial companies. Japan's Nagaoka said that Japanese investors are interested in rehabilitating facilities, such as refineries, that they had constructed in Iraq in the 1970s. He noted that state-owned enterprise reform seems more difficult as investors cannot ensure their profitability after investing in the companies. World Bank Executive Director Hasan said that there is a growing interest in investing in Iraq, but the GOI must better communicate its investment strategy to potential investors.

#### Export Credit Insurance

¶12. (SBU) James Bond, CEO of the Multilateral Investment Guarantee Agency (MIGA), said that his agency supports private sector development and provides insurance against political risk. Since Iraq became a member of MIGA last year, MIGA wants to support private business in Iraq. Bond said that export credit insurance can be supported by either MIGA or the IFC; MIGA provides assistance for those seeking coverage for more than a year while the IFC provides for less than a year. MIGA also extends assurances for Iraqi joint-venture companies who have partners in the region. IFC's Essex warned that the joint-ventures must be viable and sustainable to qualify for financing. Since the World Bank is sensitive to corruption, the financing cannot go to projects or companies that involve political leaders or "politically exposed persons."

#### Staffing and National Energy Strategy

¶13. (SBU) In a separate meeting with World Bank officials on April 7, EMIN asked Gressani about the Bank's staffing difficulties. Gressani responded that the World Bank is aware of donors' concerns about staffing and has a new strategy supported by the Board of Directors. Gressani acknowledged that World Bank staff are interested in coming to Iraq, but she faced difficulties finding

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senior people with the right networking capability and maturity skills. She plans to send more senior high-level missions to Iraq, and hopes this will attract more qualified senior staff to take positions in Iraq.

¶14. (SBU) Gressani said that the World Bank avoided engaging Iraq on its oil sector in the past because it is expensive, time-consuming and the GOI did not seem interested in the type of market-oriented advice that the Bank would provide; however, things now seemed to have changed. Country Director Larbi added that Prime Minister Maliki sent a letter requesting the World Bank's assistance on developing a national energy strategy. (Comment: World Bank Senior Public Sector Specialist Yahia Said told emboffs on April 15 that in the letter, the GOI asked for World Bank assistance to "reform everything." End Comment.) The GOI asked for assistance in reforming the institutional framework for its oil and gas sector, re-establishing the Iraq National Oil Company, and technical assistance in ending natural gas flaring which would make additional gas available to meet Iraq's power generation needs.

¶15. (SBU) MIGA's CEO Bond noted that the oil sector policy is not focused, and that the electrical power sector requires tariff reform before investors will come. So far, the GOI is only focused on the technical side and not on the institutional framework, impeding investor interest. Executive Director Hasan commented that only

partnerships with foreign oil companies will give Iraq the technology it needs to extract the oil and repair the damage to its oil reserves. The Bank is not yet sure that GOI officials responsible for this sector have grasped that essential fact.

¶16. (SBU) Comment: The GOI's invitation to the World Bank to assist in developing a national energy strategy comes out of the internal debate underway on the GOI's approach to developing the oil and gas sector. We hope the World Bank will move quickly to take advantage of this opening. We also hope it will take steps to respond to the concerns of donors here to play a stronger role in Baghdad. End Comment.

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